



## DTCC Will Establish European-Based Trade Reporting Repository *by Stuart Z. Goldstein*

**D**TCC plans to establish a new subsidiary called DTCC Derivatives Repository Ltd, which will maintain global credit default swap (CDS) data identical to that maintained in its New York-based Trade Information Warehouse.

This move is intended to help ensure that regulators globally have secure and unfettered access to global data on CDS by establishing identical CDS data sets on two different continents.

[continued on page 2]

## DTCC Acquires U.K.-Based Reference Data Business

**D**TCC acquired the outstanding shares of Avox Limited, whose primary business is cleansing and maintaining high-quality reference information on legal entities and counterparties needed by financial services to support a variety of operational, risk management and regulatory compliance activities, including know your customer and anti-money laundering reporting.

Avox provides an automated, centralized corporate database resource, with readily accessible information on the legal name, address, corporate hierarchies, immediate and ultimate parent, industry sector codes, company identifiers, and regulator

[continued on page 6]

### in this issue

2



Financial Reform Legislation

8



FINRA Offers Guidance to Industry on Obligation Warehouse

10



Business Case for Corporate Actions Communications

# European-Based Trade Repository

*Continued from cover*

“DTCC has always envisaged a ‘global solution’ for repository services supporting each OTC asset class,” said Stewart Macbeth, DTCC managing director and general manager, Trade Information Warehouse. “It is very common for counterparties to be located on different continents and to trade on underlying securities issued across borders. This means that repositories for any asset class need to maintain global information to be useful. It also means that steps need to be taken to ensure that the data is always available to regulators globally, regardless of events and circumstances taking place in one location or another.”



headquartered in London under a regulatory application filed with the Financial Services Authority (FSA) in the U.K.

The new subsidiary will jointly house the global equity derivatives repository being built by DTCC as the result of winning the International Swaps and Derivatives Association (ISDA®) global bid for this service. The location of this European subsidiary was made based on the ISDA mandate to have the global equity derivatives repository in London.

The repository will support a wide variety of critical functions, including operational, customer, technical and, most importantly, CDS trade reporting needed to ensure greater public transparency and to support the information needs of regulators and supervisory authorities.

## DTCC and the CDS market

DTCC's current customer base in the credit derivatives market includes all major derivatives dealers and more than 1,700 buy-side firms and other market participants located in more than 50 countries and supporting reference entities in 90 countries.

The total gross notional value of the approximately 2.3 million CDS contracts held by DTCC is \$25.1 trillion. @

[To learn more, visit the DTCC website at [www.dtcc.com](http://www.dtcc.com) and click OTC Derivatives.]

# DTCC Achieves Key Po

Financial re-regulatory legislation passed by the U.S. Congress and signed into law by President Obama included a provision requiring all over-the-counter (OTC) derivatives transactions to be reported to a trade repository. The vote secured a top legislative priority for DTCC and the industry.

The successful outcome capped nearly two years of work by DTCC to educate lawmakers and regulators about the company and the critical role it plays in bringing greater safety, soundness, risk mitigation and transparency to the capital markets. DTCC leveraged its experience operating the Trade Information Warehouse, the global repository for the OTC credit default swap (CDS) market, to explain to lawmakers the importance of having both cleared and non-cleared trades reported to a repository.

“DTCC’s goal was to maintain the current industry practice for CDS of reporting all trades to a repository, which would ensure regulators have a central vantage point to monitor and mitigate systemic risk,” said Larry Thompson, DTCC managing director and general counsel. “DTCC’s work during the recent Greek debt crisis, when we provided regulators, markets and investors in the U.S. and Europe with timely and reliable information about the nature and extent of CDS positions on Greek sovereign debt, was of particular interest to lawmakers and helped underscore our message about the value of reporting all trades to a repository.”

## Risk of fragmentation

Throughout the legislative process, it appeared that Congress might require only

## Contents

1. DTCC Will Establish European-Based Trade Reporting Repository
1. DTCC Acquires U.K.- Based Reference Data Business
2. DTCC Achieves Key Policy Objectives in Financial Reform Legislation
4. FICC Proposes Enhanced Risk Management with Launch of NYPC
7. Insurance File Formats Will Become Part of ACORD's Library of Industry Standards
8. FINRA Offers Guidance to Industry on Obligation Warehouse
9. DTCC Leverages Its Capabilities to Facilitate Change in the Industry
10. DTCC, SWIFT and XBRL US Publish Business Case for Corporate Actions Automation
12. AIP Service Gains Momentum
13. DTC Accelerates Payments and Reduces Risk in P&I Allocations
14. DTCC Reaches Out to Issuers
15. DTC Puts Metrics to Work for Customers

# Policy Objectives in Financial Reform Legislation

by Craig Donner



Larry Thompson, DTCC managing director and general counsel

non-cleared trades to be reported to a repository, which would fragment data and create multiple sources of different information for OTC derivatives.

“This would make it nearly impossible for any single regulator in a crisis to have access to all data globally to assess the potential threat,” Thompson said. “Regulators would be at a severe disadvantage when trying to get a timely, accurate and complete picture of the market.”

## Lynch Amendment

DTCC also tackled several other issues as part of its external affairs outreach, including opposing inclusion of the Lynch Amendment in the final bill. The amendment, which passed the House but not the Senate as part of its financial reform legislation, would have negatively impacted customers by placing strict ownership caps on certain trading platforms and clearing entities to prevent conflicts of interest.

As a result, DTCC joined with marketplaces and other infrastructure organizations in a

letter to the Conference Committee calling for alternative language that would address Congress’ concerns in a more measured way.

The final legislation rejected the Lynch Amendment and instead requires the Commodity Futures Trading Commission (CFTC) to adopt rules, if necessary, to address conflicts of interest regarding dealer ownership of clearing entities and swap execution facilities.

## Access to the Fed window

Another DTCC priority was ensuring that systemically important institutions like clearinghouses have access to all federal assistance, including short-term collateralized loans, through the Federal Reserve Bank Discount Window in the event that a future economic crisis sparks a short-term liquidity crunch.

While DTCC has never had to access the Discount Window in its 36-year history, including during the 2008 financial crisis, the Conference Report provides clarity to the law by allowing the Federal Reserve to act as a lender of last resort for clearinghouses. @

**The successful outcome capped nearly two years of work by DTCC to educate lawmakers and regulators about the company and the critical role it plays in bringing greater safety, soundness, risk mitigation and transparency to the capital markets. DTCC leveraged its experience operating the Trade Information Warehouse to explain to lawmakers the importance of having both cleared and non-cleared trades reported to a repository.**



# FICC Proposes Enhanced Risk Management With Launch of NYPC

by Jim Conmy

**D**TCC's Fixed Income Clearing Corporation (FICC) plans to introduce a number of significant changes to enhance its risk management processes while maximizing members' capital efficiency. FICC is proposing these enhancements as it prepares for the launch of New York Portfolio Clearing (NYPC), an innovative

joint venture with NYSE Euronext that will enable FICC members to cross-margin their cash positions with derivatives trades on the NYSE Liffe U.S. futures exchange.

NYPC expects to become operational later this year, pending regulatory approval. While most changes will be implemented concurrently with the launch of NYPC, all FICC members will be affected, including those that choose not to

join the joint venture.

## Summary of changes

One key enhancement is the introduction of an intraday margining and mark-to-market cycle, which will supplement the current overnight risk management processes.

Members may also be able to improve their capital efficiency by cross-margining securities positions held by multiple

## FICC Customers: Save the Date

**F**ixed Income Clearing Corporation (FICC) has scheduled seven information sessions for members to learn more about changes in margining and clearing fund requirements associated with the launch later this year of New York Portfolio Clearing.

The sessions will be held at FICC's New York location from 3 p.m. to 5 p.m. ET on:

- Tuesday, Aug. 17**
- Wednesday, Aug. 18**
- Thursday, Aug. 19**
- Tuesday, Aug. 24**
- Thursday, Aug. 26**
- Tuesday, Aug. 31**
- Wednesday, Sept. 15**  
(make-up session)

For customers who cannot attend in person, FICC will make conference-call arrangements available. FICC will provide more details on the sessions prior to these dates. Additional times will be scheduled in September, if needed.

To sign up for a session, contact your relationship manager or register at the following web address: [www.surveymonkey.com/s/NDBJ3BT](http://www.surveymonkey.com/s/NDBJ3BT).

## DTCC Executive Wins Recognition For Technology Innovation

**M**urray Pozmanter, DTCC managing director, Fixed Income Clearance and Settlement, ranked among Institutional Investor magazine's 2010 Technology 40. Pozmanter was cited for his leadership role and innovative thinking at DTCC's Fixed Income Clearing Corporation (FICC).

"The 2008 demise of Lehman Brothers Holdings caused confusion and uncertainty, but also some constructive brainstorming," wrote Institutional Investor. At FICC, the brainstorming resulted in the swift and seamless liquidation of Lehman's \$500 billion in mortgage-backed and government securities.

Those events also "sparked the idea of a 'single pot' for cash positions and natural derivatives hedges that would take the place of existing cross-margining agreements," leading to the creation of New York Portfolio Clearing, a joint venture between FICC and NYSE Euronext. This groundbreaking venture, described by Institutional Investor as "a first-of-its-kind cash and derivatives clearing concept," will enable firms to cross-margin their cash positions with derivatives trades.

Pozmanter is credited for "spearheading development of a mortgage-backed-securities central counterparty that, using netting techniques, would reduce settlement risk in trading mortgage pools," as well.

The ranking, compiled by the editors and staff of Institutional Investor, includes top executives and innovators in financial technology. The results appear in the July/August issue of the magazine ([www.iimagazine.com](http://www.iimagazine.com)). The list of 40 includes some of the industry's largest institutions and "companies that began as dot-com-era upstarts and, in their respective niches, are now anything but." @



Murray Pozmanter, DTCC managing director, Fixed Income Clearing and Settlement

affiliated legal entities as a single portfolio, both between NYPC and FICC's two divisions (Mortgage-Backed Securities Division and Government Securities Division).

In addition, FICC plans to consolidate its members' margin collateral into a single Clearing Fund, thus providing further operational benefits and maximized capital efficiency. Currently, FICC holds collateral in separate funds for each of its divisions. In the same vein, FICC will simplify its members' cash management by consolidating cash obligations across its divisions.

"Based on our experience and that of our members, we think the changes in our margining procedures not only make economic sense because they will reduce costs in many instances, they also improve risk management because we will have the resources to protect our members better, especially in liquid and fast-moving markets," said Murray Pozmanter, DTCC managing director, Fixed Income Clearing and Settlement.

FICC has scheduled information sessions to further delineate these changes (see box, page 4). Additionally, members can contact their DTCC relationship manager and set up one-on-one sessions to review how they will be impacted individually.

### Intraday risk management

FICC plans to introduce a supplemental intraday risk management cycle based on a 12:00 p.m. ET snapshot of its members' securities positions. These positions will be marked to the market (using 12:00 p.m. ET market prices) and they will also be used to calculate an intraday Clearing Fund requirement.

Similar to current practice, FICC's Mortgage-Backed Securities Division (MBSD) will include the results of the intraday mark-to-market in its members' Clearing Fund requirements, while the Government Securities Division (GSD) will process them as a series of afternoon cash

pass-throughs.

The Federal Reserve's National Settlement Service, which is currently used to handle daily cash payments to and from FICC members, will be employed to automate the processing of cash movements in the afternoon, as well.

While members can continue to use a combination of cash and securities to meet their end-of-day Clearing Fund requirements, they must satisfy any intraday Clearing Fund deficits in cash by 2:45 p.m. ET. FICC will make hourly value-at-risk (VaR) reports available to its members each morning in order to help them anticipate their intraday Clearing Fund requirements.

### Operational benefits

FICC plans to consolidate its participants' margin collateral into a unified Clearing Fund with the launch of NYPC. As a result, members will be able to post collateral to a single margin account, even if they participate in both divisions. This will facilitate members' collateral management and improve their capital efficiency.

At the same time, FICC will consolidate all cash movements related to both government and mortgage-backed securities trades into a single net cash obligation. This means that members with a GSD debit cash obligation and a simultaneous MBSD credit cash obligation will make or receive a single net FICC-wide payment. "This is a logical step that follows the consolidation of clearing funds for the two divisions into a single fund," Pozmanter noted.

### Loss allocation rule changes

FICC plans to introduce a new unified loss allocation model that is applicable to both of its divisions.

Under the revised rules, which are scheduled to go into effect with the launch of NYPC, a portion of FICC's retained earnings would first be used to absorb any losses not covered by an insolvent member's Clearing Fund. Any remaining losses may be prorated to solvent members based on a simplified set of rules. @

## Proposed Operational Timeline

Time ET	Activity
2:00 a.m.	Previous day's end-of-day Funds-Only Settlement and end-of-day Clearing Fund reports are made available.
9:30 a.m.	Deadline for satisfaction of the previous day's end-of-day Clearing Fund margin calls (in cash and securities).
10:00 a.m.	A.M. funds-only (cash) obligations are processed via the Federal Reserve's National Settlement Service.
12:00 noon	a) Deadline to request return of excess Clearing Fund collateral. b) Snapshot taken of members' intraday positions. c) Intraday mark-to-market and intraday Clearing Fund calculations begin.
2:00 p.m.	Intraday mark-to-market and intraday Clearing Fund reports are made available.
2:45 p.m.	Deadline for satisfaction of intraday Clearing Fund margin calls (in cash only).
3:15 p.m.	P.M. funds-only (cash) obligations are processed via the Federal Reserve's National Settlement Service.

## Inside Avox

**A**vox validates, corrects, enriches and maintains business entity reference data. This includes data such as corporate hierarchies, registered address information, industry sector codes and company identifiers.

The company was founded in 2003 in cooperation with several financial institutions that required a more efficient mechanism for improving data quality and timeliness. The Avox operational model is unique in the industry. Its success stems from the continuous sharing of business intelligence with its clients and partners, which Avox centralizes, anonymizes, verifies and publishes out to each participant.

Financial institutions participating in Avox form a community that collectively addresses client, issuer and counterparty data quality. The community participants, which include some of the largest banks and asset managers in the world, both contribute and subscribe to a shared pool of data, processes and resources.

Avox was voted Best Counterparty Data Provider of the Year for both 2009 and 2010 by the Inside Reference Data awards. For more information, visit [www.avox.info](http://www.avox.info).

information applicable to these companies.

### Full suite of data

“The need for accurate, well-maintained reference data on securities and legal entities is a growing priority for the financial services industry, to help manage credit exposure, meet new regulatory compliance requirements and to improve transparency from the issuer to the end investor,” said Patrick Kirby, DTCC managing director, Asset Services. “The acquisition of Avox is a natural complement and part of a global strategy DTCC has underway to provide our customers with a full suite of value-added data capabilities.”

The all-cash deal, which valued the business at a low double-digit million GBP figure, was approved by the DTCC Board of Directors in June. Deutsche Börse, which held the majority of shares in Avox, formally closed the transaction with DTCC on July 1. Under the terms of the deal, the two founders of Avox, Ken Price and Steve French, who were also minority shareholders, will head the company in the capacity of CEO and CFO, respectively.

### Creating global standards

“The market has long searched for a true industry-owned utility platform for business entity reference data. Combining Avox’s

The Avox logo consists of the word "Avox" in a bold, blue, sans-serif font. The letter "x" is stylized with a white diagonal line through it, creating a unique graphic element.The logo for "A DTCC COMPANY" features the text "A DTCC" stacked above "COMPANY" in a grey, sans-serif font. A vertical grey line is positioned to the left of the text.

## DTCC's Data Footprint

**D**TCC has a growing range of data management and reference data services aimed at helping its customers around the world improve operational efficiency and mitigate risk. These include:

- Global Corporate Action (GCA) Validation Service, which provides a centralized source of “scrubbed” information on corporate actions, e.g., tender offers, conversions, stock splits, dividends and nearly 100 other types of events for equities and fixed income instruments for more than 2 million securities from 160 countries;
- New Issue Information Dissemination System (NIIDS), part of the underwriting process, provides data on municipal bonds, equities and corporate bonds that are DTC-eligible to vendors, dealers and market participants;
- Security data from its masterfile, which provides basic information on all securities handled by DTCC’s depository.

# Insurance File Formats Will Become Part Of ACORD's Library of Industry Standards

by Crystal Bueno

proven capability to deliver high-quality content with DTCC's networked community of users and user governance is exactly what firms have been asking for," said Price. "What I find particularly exciting is DTCC's willingness to collaborate with other infrastructure organizations around the world to create a global industry standard for company-related data. By combining our capabilities with DTCC and those of our clients and partners, we're in an excellent position to help the industry better mitigate risk, achieve operational efficiencies and reduce their internal compliance costs."

Avox clients include major financial firms such as Citi, Barclays, Nomura International, Standard Bank, Mizuho, Allianz, Eurex, SWIFT, Mitsubishi UFJ and Royal Bank of Canada.

"We are convinced that the combination of DTCC and Avox will drive the creation of a global industry standard for entity reference data. Deutsche Börse will continue to focus its data activities on tradeable information such as indices, benchmarks and trading signals," said Dr. Holger Wohlenberg, managing director, Deutsche Börse Market Data and Analytics. @

[For more information, visit [www.avox.info](http://www.avox.info).]

DTCC and ACORD announced that the record layouts of DTCC's standard fixed file formats offered by DTCC's Insurance & Retirement Services business will now be included in the ACORD Life, Annuity and Health standard. This move is intended to foster further adoption of industry-wide standards for data exchange between insurance carriers and distributors.

"DTCC made these copyrighted record layouts, which enable the processing and electronic exchange of insurance information, freely available and open to the industry over seven years ago, in an effort to enable everyone to speak the same language," said Adam Bryan, DTCC managing director, Insurance & Retirement Services. "We are very pleased that having them now a part of the ACORD library further defines them not as a proprietary entity, but truly as a recognized industry standard."

## Maintaining standards

ACORD accepts intellectual property contributions from member companies on behalf of the industry, and integrates them through the standards development process to further enhance and expand ACORD standards. ACORD will now maintain these new standards. All requests for changes to the formats will go through ACORD's Maintenance Request process and an ACORD Working Group will be established.

The formats include Positions and Values (POV); Commissions (COM); Financial Activity Reporting (FAR); Licensing and Appointments (LNA); In-Force Transactions (IFT); and Applications and Premium/Subsequent Premium (APP/SUB). These formats, developed as part of DTCC's drive to

greater standardization and automation, are EDI (Electronic Data Interchange) file specifications that are currently used to communicate data.

In 2007, DTCC announced further support for the insurance industry's move toward straight-through processing by incorporating new messaging standards into its services that support real-time information exchange across different technology platforms. Following an agreement with ACORD, DTCC's Insurance & Retirement Services has used ACORD's Extensible Markup Language (XML) standards.

"As a member-driven association, we rely on our members to help expand and promote standardization and gratefully accept this donation from DTCC. It's through such donations of intellectual property that ACORD's standards have been able to evolve and grow so rapidly in both depth and breadth," stated Lloyd Chumbley, vice president, Standards, ACORD. "DTCC has long been committed to insurance industry standards. This will help promote further standards usage across the annuities sector by making these EDI formats publicly available as a true industry standard."

The formats will be posted on ACORD's website ([www.acord.org](http://www.acord.org)) under Life, Annuity, & Health Downloads and are publicly available.

"This contribution builds on DTCC's efforts to promote standardization and communication in the insurance business, helping the industry mainstream annuities, life and retirement income products just as we have helped mainstream stocks, bonds and mutual funds," Bryan said. @

# FINRA Offers Guidance to Industry on Obligation Warehouse

by Craig Donner

The Financial Industry Regulatory Authority (FINRA) has informed its members that the use of National Securities Clearing Corporation's (NSCC) enhanced fail reconfirmation and pricing service, known as Obligation Warehouse (OW), is in conformance with its rules.

The OW will significantly enhance the Reconfirmation and Pricing Service (RECAPS), which NSCC customers must use under NASD Rule 11190(a). The rule requires members of a registered clearing agency to participate in a fail reconfirmation and pricing service. NSCC sought an interpretation of the rules from FINRA to ensure that the OW falls within the scope of the regulation and that firms would have to use it when the service launches in early 2010.

"FINRA members that are participants in NSCC would be required under NASD Rule 11190(a) to participate in such a fail reconfirmation and pricing service," according to a recent letter the regulatory body sent to NSCC.

"The industry has been looking forward to this guidance from FINRA so firms have a clear path forward in preparing for the launch of the OW," said Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities. "The ruling provides clarity and

also gives ops departments greater leverage to work within their own institutions to secure the resources to develop the new functionality for the OW. It brings us one step closer to transforming the processing of ex-clearing trades and other open obligations, which will mark an important milestone for the industry."

## Enhanced features

Much of industry interest in the OW revolves around its broad range of enhancements and new functionality, including allowing broker/dealers to submit ex-clearing trades and other obligations for automated real-time matching and confirmation. The service will also automate the management of ex-clearing and non-Continuous Net Settlement (CNS) fails and consolidate and store the transactions in a central location.

"The OW will eliminate the manual processing of ex-clearing trades and replace it with a real-time automated service that will electronically manage these transactions and communicate a successful match to each side of the obligation," said Thomas Sakaris, DTCC vice president, Clearance and Settlement/Equities. "It will deliver the processing efficiencies, risk mitigation and reduced costs that the industry has long sought – and will solve

problems that have plagued firms for many years."

## Increased transparency

Sakaris also pointed out that the OW will enhance transparency of the equities market by fully capturing, for the first time, virtually all trading activity in NSCC-eligible securities in a central location from trade date until settlement.

"Ex-clearing trades are essentially invisible to all but the firms involved in each particular transaction because they are managed bilaterally between the trading parties," Sakaris said. "The OW will bring greater transparency to the marketplace by giving the industry and regulators a complete view of virtually all open obligations traded in the U.S. for equities, corporates, municipals and unit investment trust securities – and, importantly, a central vantage point to monitor and mitigate systemic risk." @



# DTCC Leverages Its Capabilities To Facilitate Change in the Industry

by Craig Donner

**D**TCC is taking the lead in developing solutions to help firms meet new regulatory and reporting requirements in the most cost-effective manner possible, according to Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities, who spoke on a panel at SunGard's June 21 New York City Day conference.

Cosgrove also outlined steps DTCC is taking to help its customers manage risk, credit and collateral during this period of industry transformation as well as how the company is responding to changes in the equity market structure.

"The industry faces significant challenges in the coming years – and DTCC is staying ahead of the curve and adapting so that we remain a strong partner to our customers," Cosgrove said. "New laws being passed in Washington, D.C., and Brussels present opportunities for us to leverage our capabilities to facilitate more cost-effective compliance with regulations that will impact our customers."



Susan Cosgrove, DTCC managing director, Clearance and Settlement/Equities

## Meeting industry needs

Cosgrove cited DTCC's resilient infrastructure, the connectivity it supports across the marketplace and its ability to promote standardization as key assets that will position the company to meet emerging industry needs.

As an example, Cosgrove pointed to DTCC's enhanced Cost-Basis Reporting Service (CBRS), which will help firms comply with a January 1, 2011, federal mandate requiring them to report cost-basis information for equities between financial intermediaries. National Securities Clearing Corporation (NSCC) is leveraging the existing CBRS technology to automate and standardize the movement of this information in a secure electronic environment.

"Firms will be able to meet the federal law without having to make a significant capital investment," Cosgrove said. "In addition, by enhancing a proven and reliable service, we'll have it operational in a fraction of the time it would normally take to develop such a capability. Our goal is to minimize the cost of compliance and improve processing efficiencies so our

customers can focus on growing their business."

## Leveraging the infrastructure

During the panel, Nicholas Rubino, executive vice president, Daiwa Capital Markets America Inc., discussed the importance of a central counterparty (CCP) in providing stability and certainty to the market, especially during times of crisis or unexpected volatility.

"The CCP infrastructure is a powerful resource that the industry can

leverage to mitigate systemic risk and provide safety and soundness to the marketplace," Rubino said. "But the infrastructure can also make our markets safer and more transparent while driving down post-trade costs and enhancing efficiencies and liquidity. As the markets continue to evolve, the industry will look to DTCC to help support this transformation so that financial firms can seize new opportunities."

## Reviewing margin requirements

With liquidity remaining a serious issue facing the industry, Cosgrove explained the challenges DTCC faces in balancing the need to be fully collateralized to protect the industry in the event of a firm default while also ensuring

margin requirements do not deplete capital from the system unnecessarily. One way DTCC strikes the right balance, according to Cosgrove, is by viewing each member's exposure to the system as a portfolio, which provides a complete picture of its risk profile and also avoids possible double-charging that could result from the firm having offsetting positions with different clearing agencies.

One innovative solution to this challenge, according to Cosgrove, is the agreement between NSCC and the Options Clearing Corporation that prevents the collection of duplicative risk margin for options exercises and assignments. "This accord allows billions of dollars of margin each month to be returned to customers sooner, freeing up much-needed capital and reducing overall costs to the industry – with no adverse impact on our risk management. We will continue exploring portfolio-based margining to bring greater efficiency to this process."

## Higher volume; lower costs

The explosive growth of high-frequency trading and its impact on the equity markets was another hot topic of conversation during the panel.

[continued on page 10]

# DTCC, SWIFT and XBRL US Publish Business Case For Corporate Actions Automation

**D**TCC, SWIFT and XBRL US announced in June the results of a business case advocating a transformation in the way corporate actions announcements are communicated in the U.S., allowing investors to receive information on such corporate actions as mergers, dividends, stock splits and other events in a more timely, accurate and less costly way, directly as specified by the issuer or offeror.

The business case, developed with key stakeholders from across the corporate actions processing supply chain – issuers, intermediaries and investors – documents the existing announcement process, highlights current problems and provides recommendations to solve those issues.

## Global standards

The recommendations call for, among other things, a single set of global standards for corporate actions processing. According to the business case, this will bring greater accuracy, reduced risks and lower costs by improving transparency and communication between issuers and investors. A pilot program will be initiated late this year to implement the recommendations and further evaluate costs and benefits, with participation from issuers, intermediaries and investors.

The business case makes clear that use of the global standards by issuers will allow them to provide their key messages directly to investors or potential investors without the delays or potential

errors inherent in the reliance, under today's process, on interpretation by financial intermediaries. It also examines, for the first time, the complete corporate action process from announcement to completion, using a case study of Pfizer's acquisition of Wyeth in 2009.

## Four critical issues

The business case highlights four critical issues raised by issuers, intermediaries and investors in today's corporate action announcement process that the proposed solution is designed to address:

- **Interpretation risk:** Issuer messages are “free text,” e.g., news releases and regulatory filings, that must be interpreted, transformed and summarized by the financial services industry with no input from the issuer on the data conveyed.
- **Timing risk:** The need for manual interpretation and intervention by intermediaries results in delays in communicating information to the investor.
- **Accuracy risk:** Multiple parties extracting, manually rekeying and disseminating the same information increases the potential for errors delivered to the investor.
- **Costs:** The lack of straight-through processing (STP) throughout the corporate action chain results in cost and liability being absorbed by the financial services industry.

---

## DTCC Leverages Its Capabilities *Continued from page 9*

Cosgrove explained that NSCC processing volumes have surged over the past five years to an average of roughly 100 million transactions per day, up from about 20 million transactions in 2005. To accommodate this growth, NSCC continuously upgrades its systems to ensure sufficient capacity to handle market volume as well as spikes to the market – while still charging the lowest price in the world for equity clearance.

“We’ve reduced clearance costs by 80% since 2005 while keeping our cost base relatively flat at about \$70 million annually to clear the entire U.S. equity market,” Cosgrove said. “That means our customers today pay one-third of a penny per transaction compared to 1.5 cents in 2005. The more volume we process, the

lower the per-unit cost of clearing becomes – and the more money the industry saves on its post-trade costs.”

As an illustration of DTCC's commitment to keep ahead of market changes, Cosgrove described NSCC's new Universal Trade Capture (UTC) application. This system will replace the multiple trade-capture applications currently used by NSCC with a single, real-time validation and reporting engine.

UTC dovetails with NSCC's plans to accelerate its trade guarantee, Cosgrove explained, by creating a near real-time system to capture and novate trades before sending output to firms for reconciliation. @

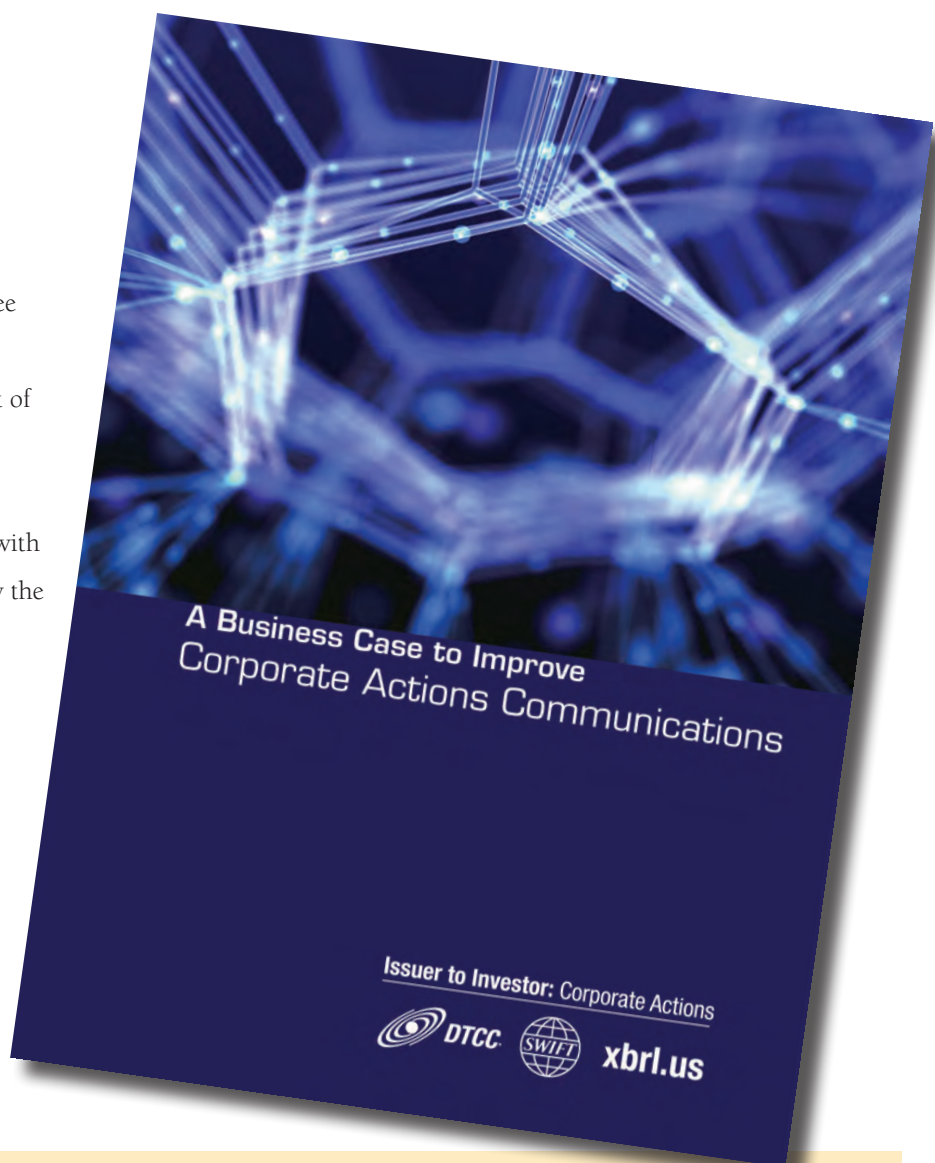
# Business Case

## Three recommendations

To address these issues, the business case makes three principal recommendations:

1. All parties to the process should adopt a single set of global information and technology standards, while continuing to support the current disclosure process;
2. Issuers should “tag” corporate action documents with XBRL (based upon the global ISO standard followed by the financial services industry), permitting easy, automated extraction of the data;
3. Intermediaries should consume and seamlessly disseminate the electronic version of the corporate action information as close to real time as possible or within a timeframe as requested by investors. @

[For a copy of the business case to improve corporate actions communications, and for more information about Issuer to Investor: Corporate Actions initiative, visit <http://xbrl.us/i2i.>]



## A Blueprint to Strengthen Processing

The recommendations contained in the business case to improve corporate actions communications are intended to transform this aspect of the corporate action processing chain.

James Anderson, manager of Financial Reporting at AGL Resources, said, “Implementing these recommendations would result in corporate action information that is computer-readable, eliminating the need for intermediaries to interpret and transform our messages into structured data. This allows us to remain in control of these important disclosures and ensure they are communicated exactly as we intended. This enables greater transparency, accuracy and timeliness of our data that is extracted from regulatory filings and press releases that we issue, giving our shareholders more time to make decisions. We believe our investors and those who receive our corporate action information will embrace this initiative.”

### Quantifying the impact

Survey results and discussions with members of the

stakeholder group highlighted expected benefits of implementation including:

- Direct savings to investors and their investment managers of \$172 million annually.
- An estimated total cost savings of \$400 million per year for the industry.
- A 60% improvement in fully automated dissemination of data on mandatory corporate action events to investors, which represent an estimated 80% of all U.S. corporate actions.

Elisa Nuottajarvi, manager, Securities Industry and Financial Markets Association – Asset Management Group, said: “The Issuer-to-Investor: Corporate Actions business case is a major effort which makes it very clear that there is a need to automate the corporate actions process by using new technologies and standards, such as XBRL and ISO. Industry-wide collaboration on this effort is a key step in the process of resolving this age-old and very costly problem.”

# AIP Service Gains Momentum

**D**TCC's Alternative Investment Products (AIP) service continues to progress, bringing new partners on board to help centralize investment data, reduce risks and increase operating margins for participants in the growing alternative investments marketplace.

AIP links global market participants, including broker/dealers, fund managers, administrators and custodians to provide end-to-end processing of alternative investments such as hedge funds, funds of funds, private equity, non-traded real estate investment trusts (REITs) and limited partnerships.

## Centralizing data

In a step toward extending the benefits of AIP to non-traded REITs and limited partnerships, DTCC has teamed with Phoenix American Financial Services

(Phoenix), a San Rafael, California-based transfer agent.

Phoenix will feed the AIP platform with non-traded REITs and limited partnerships data, giving registered representatives and financial advisers the ability to seamlessly connect with manufacturers of these products so they can sell the investments to their high-net-worth clients. Phoenix will begin testing with DTCC during the third quarter of this year. By supporting the AIP platform, Phoenix is helping to centralize alternative investment data, bringing more order to the alternative investments marketplace.

Driven by investors' desire for portfolio diversification, the market for alternative investments has grown significantly since 2000. Hedge fund assets alone have risen to an estimated \$2.7 trillion while the size of the non-traded REIT market has almost

tripled over the past five years to reach \$438 billion.

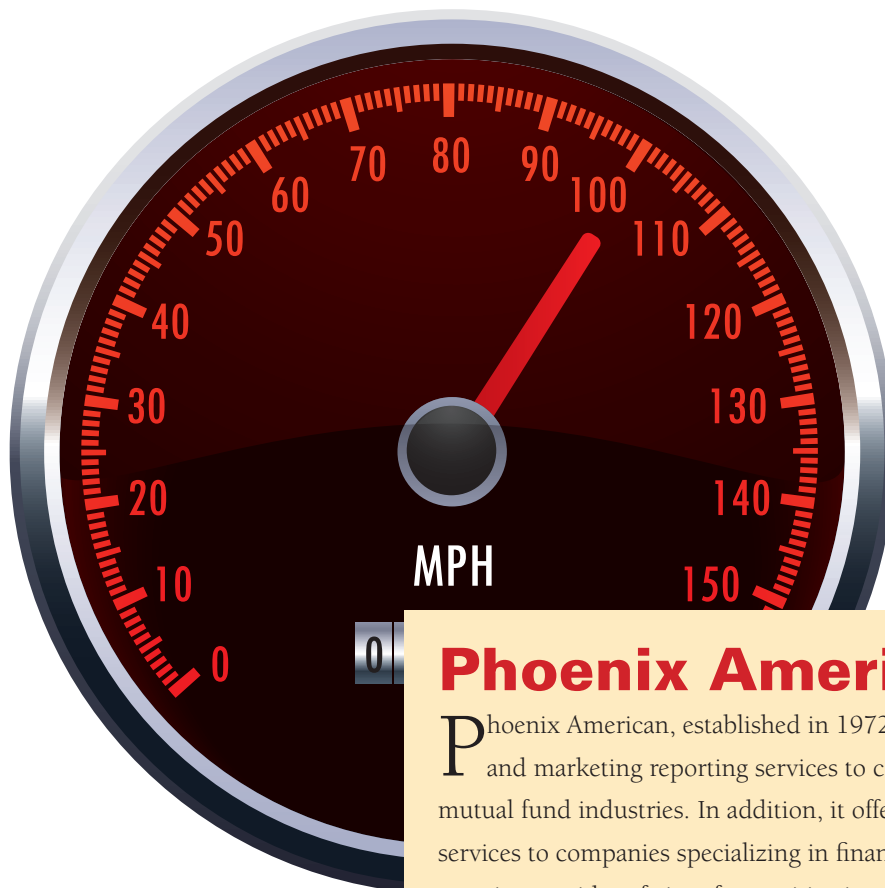
## Efficiency and scalability

"We are very pleased that Phoenix American has joined DTCC and our other partners to support AIP," said Ann Bergin, DTCC managing director, Wealth Management Services. "Collaboration is key to bringing change to the alternative investments market. Together we can effectively deliver on our shared objective: to provide the alternative investment community with the operational efficiency and scalability it needs to facilitate greater product distribution and increase market growth."

"Participation in DTCC's AIP platform is consistent with Phoenix American's commitment to provide its clients with maximum efficiency, reliability and flexibility," said Phil Owen, vice president of Operations, Phoenix American. "Phoenix has always encouraged and embraced improving industry standards. This will open the doors for our clients to access tens of thousands of reps and advisers."

AIP is designed to standardize the way the alternative investment industry communicates information by creating a uniform platform that leverages the collective expertise of DTCC, Phoenix and other partners. @

*[To learn more about DTCC's Alternative Investment Products (AIP) service, visit [www.dtcc.com](http://www.dtcc.com) and click Wealth Management.]*



## Phoenix American

**P**hoenix American, established in 1972, provides transfer agent services as well as sales and marketing reporting services to companies in the alternative investment and mutual fund industries. In addition, it offers full-service corporate accounting and tax services to companies specializing in financial services and securitization. Phoenix is also a premier provider of aircraft securitization administrative services.

To learn more, visit [www.pafsi.com](http://www.pafsi.com).

# DTC Accelerates Payments And Reduces Risk in P&I Allocations

by Edward C. Kelleher

The Depository Trust Company (DTC) has reported a substantial reduction in the number of late and misidentified payments it receives from paying agents, issuers and other customers as part of the principal and income payments (P&I) DTC handles on the more than 3.5 million securities it holds in custody. This tightening of the processing chain will further reduce risk in the allocation of several trillion dollars annually.

DTC collects and allocates cash entitlements due on DTC-eligible securities on a daily basis. The P&I payments include dividend, interest, periodic principal, redemption and maturity payments. In 2009, DTCC collected and allocated almost five million payments totaling just under \$3 trillion.

DTC announced in November 2009 it would change the way it handles P&I payments beginning January 1, 2011, to reduce risk in their allocation. The announcement came in a white paper titled *P&I Payment Refinement: A Move to Further Reduce Payment Risk*, which pointed out that more than 4% of these payments, or approximately \$10 billion per month, were late or misidentified.

## Risk exposure

Under current practices, DTC allocates virtually all payments on their scheduled payment dates, whether or not it has received payment from an agent or if it has received the payment without the information needed to pair it with a specific CUSIP number.

“There are inherent risks associated with allocating late and unidentified payments, and the exposure to credit and liquidity risk in an increasingly complex financial and regulatory environment has grown to unacceptable levels,” said Kurt Holweger, DTCC managing director, Operations and Customer Service.

Starting January 1, 2011, DTC will only allocate those payments that have been made on time and identified with the correct CUSIP.

## Industry collaboration

“After issuing the white paper, we immediately formed an industry task force with participants, paying agents and relevant industry groups to alert them to the changes we proposed and to investigate ways to reduce the number of late and misidentified payments,” said John Faith, DTCC vice president, Operations.

DTC and the industry have made steady gains since announcing the changes with both on-time payments and correct CUSIPs. As of

May 2010, the value of on-time and properly identified payments – compliant with the 2011 allocation methodology – increased to 98.35%, from 97.23% in January. The percentage of CUSIPs allocated in a compliant manner in May jumped to 94.87%, from 89.3% in January.

The value of “noncompliant” payments in May declined to \$3.34 billion versus \$5.75 billion in January, a 42% improvement, and the number of CUSIPs allocated in a noncompliant manner fell to 17,300 in May versus 39,630 in January. Faith also pointed out that 90% of late or incorrect P&I payments in May were resolved by pay date + 1, meaning that \$9 of every \$10 dollars that would not have been credited to customers on the payable date would have been allocated by the following business day.

To what does Faith attribute the improvements?

“It’s more a question of awareness,” he said. “The white paper and the task force helped alert the industry to the problem, and both the major agents as well as the smaller ones, started working to improve their processes – taking the steps necessary to ensure share and bondholders continue to receive entitlements on the payable date.”

To keep awareness on the front burner, DTC also began issuing weekly reports of noncompliant payments in January so participants could monitor and track the impact of this change on their organizations. Reports detailing this information have been shared with the largest paying agents since March and will be expanded to include late payment detail and daily and monthly summaries for all paying agents later in the third quarter.

## New online resource

DTC continues its industry outreach to alert firms to the upcoming changes in P&I payments. It has been in contact with more than 3,000 agents and issuers so far this year. In the third quarter, DTC will launch a new P&I page on the DTCC website that will provide P&I news and updates, a user guide, best practices and metrics. “This new online resource will serve as a complete repository of resources for paying agents, issuers and DTC customers,” said Faith.

DTC receives P&I payments from about 7,000 different entities each year, with 16 of the largest agents responsible for 90% of the payments. The remaining 10% come from the smaller agents and municipalities. @

# DTCC Reaches Out to Issuers by Edward C. Kelleher

**Y**ou may not know us, but as the central depository for the United States, we hold in custody an estimated 90% of all U.S. securities valued at \$33.9 trillion.”

That’s what DTCC is telling issuers in a new brochure designed to provide a greater understanding of the role DTCC plays in their businesses.

“Corporations and other issuers may only have a passing knowledge of DTCC and our businesses,” said Patrick Kirby, DTCC managing director, Asset Services. “Yet we work for many of them on a daily basis – interacting both directly and indirectly – to reduce risk and costs, while offering a range of services to help them and their business partners meet the challenges of today’s global marketplace.

“Some issuers know us because they’ve launched an initial public offering with our Underwriting Service, or because we help them contact their shareholders for an annual meeting with our Security Position Reports,” said Kirby. “That’s the extent of it. But there’s good reason it shouldn’t end there as we offer a suite of services that provide great value to issuers and their agents.”

## Working behind the scenes

DTCC, through its subsidiary, The Depository Trust Company (DTC), boosts efficiencies and reduces costs for corporations and other issuers by helping to automate the entire lifecycle of a security, offering custody and corporate action services, and providing issuers with a wealth of shareholder information on depository-eligible securities as well as tax services for both domestic and international clients.

Highlights of the brochure include:

- **Underwriting Services.** These services enable underwriters to distribute both primary and secondary offerings of securities quickly and economically via electronic book-entry delivery and settlement.

- **Direct Registration System (DRS).** This service gives investors the option of holding their assets on the books of their transfer agent in book-entry form, eliminating the expense of issuing paper certificates as well as the risk of having those securities lost or stolen. DRS also facilitates the quick, easy and efficient sale of an investor’s securities.

- **Dividend Service.** With this service, DTC plays a key role in making sure a company’s shareholders receive prompt, accurate payments on their investments. This service provides for the distribution of dividend, interest and certain principal payments for securities held at DTC.

- **Reorganization Service.** DTC notifies its customers of important upcoming reorganization events, such as mergers, takeovers or bankruptcies that may affect them. DTC acts as a centralized hub, collecting investors’ instructions and communicating them to the issuer. It helps process these actions for its customers as well, which can involve transferring billions of dollars in cash and stock between companies and shareholders.

- **Tax Services.** DTC has a range of tax services for both domestic and international investors. These include the TaxRelief<sup>SM</sup> Service, which enables investors in foreign issues to obtain “at-source” tax relief. This means the correct amount of tax is withheld from their dividend or interest payment. The alternative is applying for a refund for

overwithheld taxes – an onerous, paper-intensive and lengthy process.

- **Security Position Reports.** These reports give issuers the information they need to contact their shareholders directly about corporate events such as annual meetings.

- **Proxy Services.** These services enable DTC customers to communicate with DTC-eligible issuers on a variety of proxy-related



events including consent solicitation, bankruptcies, legal notices and appraisal or dissenter’s rights.

- **Legal Notice System.** This service gives issuers, their agents and the courts a means of communicating with shareholders on a range of topics including information concerning a security, defaults, class actions, taxation and bankruptcies. @

[To obtain An Introduction to DTCC’s Issuer Services or to learn more about DTCC’s Issuer Services, send an email to [issuerservices@dtcc.com](mailto:issuerservices@dtcc.com) or visit [www.dtcc.com/issuerservices](http://www.dtcc.com/issuerservices).]

# DTC Puts Metrics to Work For Customers

by Edward C. Kelleher

Working closely with industry representatives, The Depository Trust Company (DTC) is deploying metrics to bring new efficiencies to the processing of non-structured securities such as corporate and municipal bonds and equities. This effort targets the performance of paying agents, vendors, underwriters and DTC's own Asset Services group.

"We're building upon what we've

learned from working with paying agents on structured securities – asset-backed securities (ABS) and collateralized mortgage obligations (CMOs)," said Cheryl Lambert, DTCC managing director, Asset Services. "This is a market where payment data problems were responsible for billions of dollars in late payments to hundreds of thousands of investors each year."

## Report card

"We began by publishing a monthly report card so agents could track their own performance against other leading paying agents," said Lambert. "And then we took it a step further

by introducing Six Sigma metrics into the mix. This effort has reduced expenses and risk for the structured securities industry and improved the overall performance of the various parties involved in processing these securities."

The Six Sigma methodology emphasizes a metrics-driven set of quality management tools designed to deliver world-class performance and reliability.

Initially, structured securities agents could only see statistics on their individual performance and how they compared to their unidentified peers. In 2008, the agents and the industry task force they supported agreed to full transparency, and DTC

[continued on page 16]

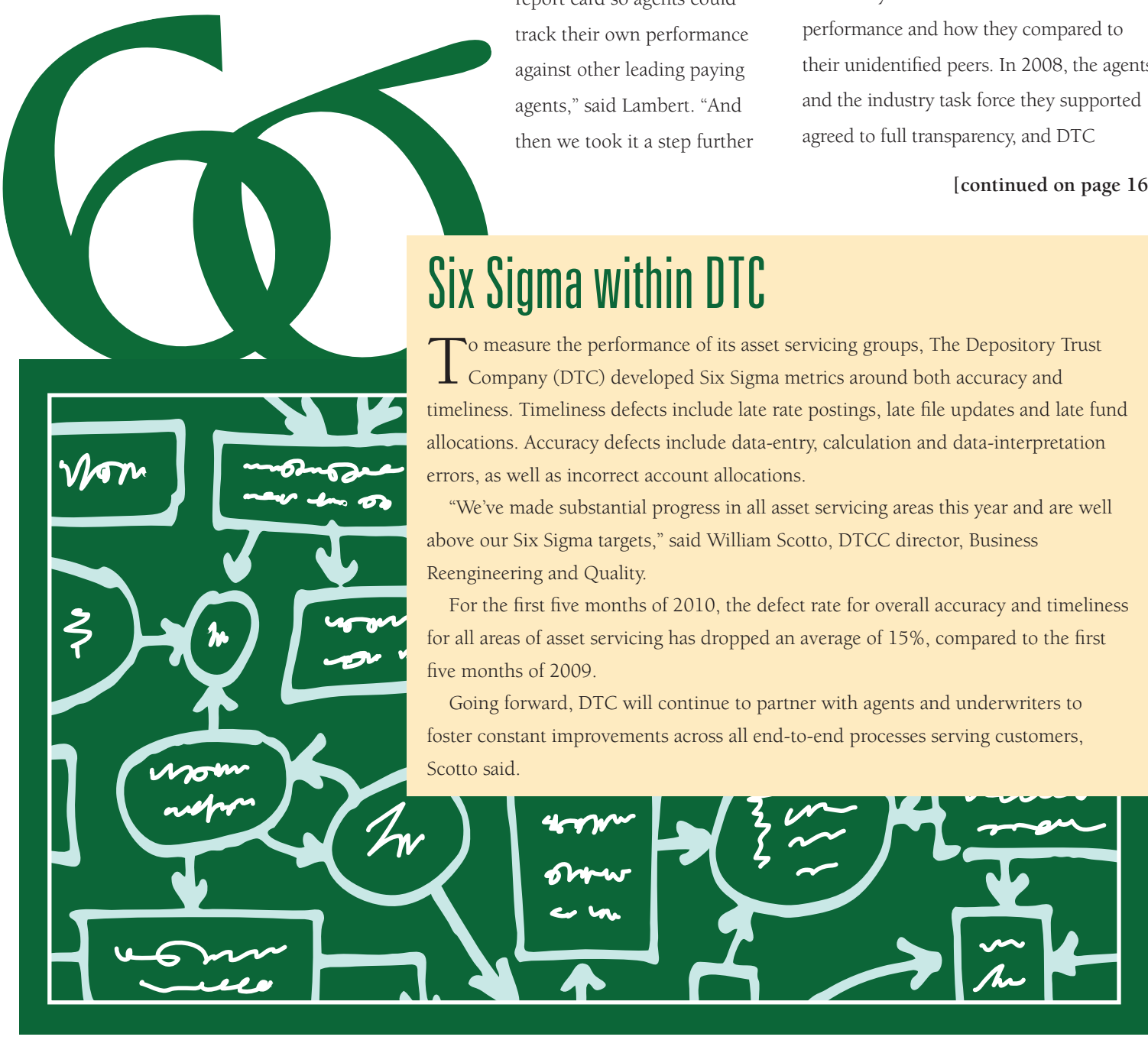
## Six Sigma within DTC

To measure the performance of its asset servicing groups, The Depository Trust Company (DTC) developed Six Sigma metrics around both accuracy and timeliness. Timeliness defects include late rate postings, late file updates and late fund allocations. Accuracy defects include data-entry, calculation and data-interpretation errors, as well as incorrect account allocations.

"We've made substantial progress in all asset servicing areas this year and are well above our Six Sigma targets," said William Scotto, DTCC director, Business Reengineering and Quality.

For the first five months of 2010, the defect rate for overall accuracy and timeliness for all areas of asset servicing has dropped an average of 15%, compared to the first five months of 2009.

Going forward, DTC will continue to partner with agents and underwriters to foster constant improvements across all end-to-end processes serving customers, Scotto said.



# Metrics for Customers

Continued from page 15

published the report card on its website.

## Numbers get everyone's attention

"The rationale behind opening up the results to the entire industry is that when you make metrics visible, it gets everyone's attention," said William Scotto, DTCC director, Business Reengineering and Quality. "Metric improvements tend to be better and come faster, and the process becomes a continuous one."

Following the success of the structured securities effort, DTC turned its sights on non-structured securities, such as corporate and municipal bonds and

equities, in 2009 and developed Sigma metrics to measure the performance of paying agents and underwriters, as well DTC's own performance in all asset servicing areas. These areas include Underwriting, Dividend Announcements, Cash Processing, Redemptions, Reorganization Announcements, Reorganization Processing and Global Corporate Actions.

## Agent results

Non-structured securities showed dramatic improvements in all areas after metrics were introduced. For example:

- **Late rate information** saw a 40.6% reduction from 4Q2009 to 1Q2010, representing an average reduction of late rate information on 300 payments per month.
- **Inaccurate rate information** saw a 23.8% reduction for the same time period with an average reduction of inaccurate rate information on 98 payments per month.

Improvements for both structured and non-structured securities included:

- **Incorrect principal and interest payments** dropped 39% in the first four months of 2010, which meant that correct allocations increased by \$2.7 billion.
- **Late principal and interest payments** fell by 16% in the first four months of 2010.

## Underwriters

Dramatic improvements by underwriters also were recorded in the timeliness of new-issue eligibility information received by DTC. Statistics comparing the average reduction in late-issue information in asset classes for February through May

2010 compared to January 2010 showed:

- A 50.6% reduction for municipal issues.
- A 49.9% reduction for equity issues.
- A 48.9% reduction for certificates of deposits (CD) issues.
- A 44.5% reduction for corporate debt issues.
- A 10.4% reduction for collateralized mortgage obligations issues.

The overall average reduction for all asset classes was 47.6%.

## 2011 Targets

To sustain these gains, DTC has launched a pilot program that will set targets for specific metrics, such as late or inaccurate rate information, with a select group of core paying agents and leading underwriters. There will be no individual targets for either the agents or the underwriters, just core group targets for each metric, Scotto said.

The pilot starts in July and runs through October 2010, providing a baseline to finalize the 2011 targets for both agents and underwriters. @



Following the success of the structured securities effort, DTC turned its sights on non-structured securities, such as corporate and municipal bonds and equities, and developed Sigma metrics to measure the performance of paying agents and underwriters, as well DTC's own performance in all asset servicing areas.



@dtcc is published by Corporate Communications and available online at [www.dtcc.com](http://www.dtcc.com) under News Center. For comments or to subscribe, send an email to [editor@dtcc.com](mailto:editor@dtcc.com).

Stuart Z. Goldstein  
Managing Director

Helen Cunningham  
Editor

Troy Cavaliere  
Design

Printed by  
DTCC Print Department

We may provide you with additional information about our products and services from time to time unless you have indicated that you do not wish to receive such information. This information may be communicated by various means. If at any time you wish to be removed from our distribution list, please send an email to [PrivacyOffice@dtcc.com](mailto:PrivacyOffice@dtcc.com).